

Message Text

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ORIGIN EB-11

INFO OCT-01 ARA-11 ADP-00 TRSE-00 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 IGA-02 /087 R

DRAFTED BY EB/ IFD/ ODF: TCSCHAFER: CU

6/25/73 EXT. 20686

APPROVED BY EB/ IFD/ ODF: TCSCHAFER

TREAS: JLANGE

EB/ IFD: SWEINTRAUB (SUBS)

ARA/ BR: MR. PEREZ

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R 261208 Z JUN 73

FM SECSTATE WASHDC

TO AMEMBASSY BRASILIA

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E. O. 11652: N/ A

TAGS: EAID, BR

SUBJECT: IDB LOAN TO BNDE

1. BNDE HAS APPLIED TO IDB FOR A DOLS. 40 MILLION CREDIT
TO BE USED FOR RELENDING FOR PROJECTS IN THE PETRO- CHEMICAL
SECTOR.

2. IN KEEPING WITH ITS PRACTICE ON LOANS WHICH INVOLVE
POTENTIAL ECONOMIC POLICY PROBLEMS, IDB MANAGEMENT RECENTLY
ASKED THE BOARD OF DIRECTORS FOR GUIDANCE ON CERTAIN
TECHNICAL ASPECTS OF THE LOAN. SPECIFICALLY, BNDE HAD
REQUESTED THAT IT BE EXEMPT FROM WHAT WE UNDERSTAND TO BE
THE NORMAL IDB PRACTICE WHEREBY THERE WAS A CEILING ON THE
AMOUNT OF IDB MONEY WHICH COULD BE RELENT TO ANY PARTICULAR
PROJECT, AND ANOTHER CEILING ON THE OVERALL SIZE OF A SUB-
PROJECT TO WHICH IDB FUNDS COULD BE APPLIED. IDB MANAGE-
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MENT INDICATED THAT IT WOULD BE GUIDED BY THE BOARD'S VIEWS IN DESIGNING THE LOAN WHICH WOULD THEN COME BANK TO THE BOARD FOR A FINAL DETERMINATION. THE U. S. EXECUTIVE DIRECTOR INDICATED AT THAT TIME THAT THE USG SUPPORTS THE NORMAL PRACTICE OF IMPOSING SUCH CEILINGS IN CREDITS LIKE THIS ONE, ON THE GROUNDS THAT PROJECTS INVOLVING SUMS GREATER THAN THE PROPOSED DOLS. 5 MILLION CEILING COULD BE HANDLED AS DIRECT IDB LOANS TO THE END USER, RATHER THAN BEING FUNNELED THROUGH THE BNDE. USED MADE CLEAR AT THAT TIME THAT WE CONSIDER THIS A MATTER OF SOUND BANKING POLICY, AND THAT NO POLITICAL CONCERNS WERE IN ANY WAY INVOLVED.

3. BNDE MEANWHILE INFORMED THE BANK THAT IT INTENDS TO WITHDRAW ITS APPLICATION IF THE IDB IMPOSES CEILINGS AS DESCRIBED ABOVE. WE CONTINUE TO BELIEVE THAT THE IDB'S CUSTOMARY PRACTICE OF IMPOSING CEILINGS IS FINANCIALLY SOUND. WE HAVE EXPLAINED THIS POSITION CAREFULLY TO OTHER EDs AT THE BANK, TAKING CARE TO REITERATE THAT OUR POSITION IS BASED ON FINANCIAL CONSIDERATIONS AND THAT SOUND PROJECTS FOR BRAZIL IN GENERAL, OR THE BNDE OR OTHER END USERS IN BRAZIL, WOULD STILL RECEIVE OUR FULL SUPPORT.

4. THE DIRECTORS' DISCUSSIONS WERE INCONCLUSIVE AND THE BANK IS WORKING ON THE FORMAL LOAN DOCUMENT FOR THE PROJECT. WE DO NOT YET KNOW HOW THE LOAN DOCUMENT WILL DEAL WITH THE CEILINGS ISSUE.

5. FOREGOING IS FOR EMBASSY'S BACKGROUND ONLY, IN CASE THE ISSUE IS RAISED BY BRAZILIAN OFFICIALS. ROGERS

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*** Current Handling Restrictions *** n/a

*** Current Classification *** LIMITED OFFICIAL USE

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